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CITY OF MILPITAS
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2009

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CITY OF MILPITAS
SINGLE AUDIT REPORT
For The Year Ended June 30, 2009

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CITY OF MILPITAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2009

SECTION I—SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Type of auditor's report issued on compliance for major programs: Unqualified

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes X None Reported

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? Yes X No

Identification of major programs:

<u>CFDA#(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>20.205</u>	<u>U.S. Department of Transportation – Highway Planning and Construction</u>
<u>97.044</u>	<u>U.S. Department of Homeland Security - Assistance to Firefighters Grant</u>

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit did not disclose any significant deficiencies, or material weaknesses or instances of noncompliance material to the basic financial statements. However, we did communicate other matters to the City Council in our separate Memorandum on Internal Control dated September 18, 2009 which is an integral part of our audits and should be read in conjunction with this report.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Our audit did not disclose any findings or questioned costs required to be reported in accordance with OMB Circular A-133.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS – Prepared by Management

Financial Statement Prior Year Findings

There were no prior year Financial Statement Findings reported.

Federal Award Prior Year Findings and Questioned Costs

Finding 08-01: Grant Accounting and Compliance

Program Affected: U.S. Department of Homeland Security - Urban Area Security Initiative, CFDA #97.008

The City's Fire Department received a fully equipped urban search and rescue trailer from the Santa Clara County Fire Department in April 2005 which was funded by the Urban Area Security Initiative grant. As documented on the Grant Property Transfer forms, the value of the equipment transferred was \$107,457 at that date, however, the City's Fire Department staff did not inform the Finance Department of the equipment until fiscal year 2008. Upon receipt of the information in fiscal year 2008, the City's Finance Department requested a copy of the grant agreement with the County, but the City's Fire Department was not able to locate the grant agreement with the County of Santa Clara that stipulated the grant requirements. Therefore, we were unable to determine whether the City was in compliance with the requirements of the grant.

In addition, when accepting the equipment from Santa Clara County, the City's Fire Department staff did not verify the mathematical accuracy of the grant property transfer forms and many lines on the forms did not contain the exact quantity transferred or a unit price. The forms as provided by the County totaled \$107,457, however we recalculated the forms as provided and it appears that they total \$103,456, a difference of \$4,001. However, as noted, some lines listed descriptions for items that did not include quantities and some items did contain quantities but no unit prices. Therefore, we were unable to determine whether the value of the trailer and associated equipment was overstated or understated. City staff should perform a full inventory of the Trailer, comparing it to the grant property transfer form to ensure that all items are accounted for.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)

In the future, City staff should ensure that all federal grant documentation is maintained to ensure compliance with all grant requirements. And, all documentation for grant equipment received should be checked for mathematical accuracy and to ensure that all items received are documented.

Finally, all City departments should be informed that for all federally funded transactions, whether they be grants received in cash or via equipment, the Finance Department must be informed of the grant transaction so it can be properly reported on the Schedule of Federal Expenditures and help to ensure that all grant compliance and reporting requirements are met.

Current Status:

The Fire Chief and the Assistant Fire Chief both left the Department in April/May of 2005, leaving a reporting gap when the rescue trailer was delivered to the Milpitas Fire Department. The trailer was purchased under another agency's grant application, which included several rescue trailers to be housed strategically at various fire departments throughout the County. Milpitas was one of the chosen locations. The Milpitas Fire Department keeps the trailer and its contents at the Fire Department training compound. In 2006, the Fire Chief established an inventory program for the rescue trailer that documents the inventory of the trailer quarterly and after each use. The trailer has been used during various regional training drills and the inventory has changed since its arrival. The fire department has not performed a mathematical accounting for the equipment, but can verify the contents.

All grants and grant-related equipment received since the arrival of the successor Fire Chief have been reported to the City's Finance Department and are part of the Department's inventory accounting program.

CITY OF MILPITAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Program Name	Grantor/ Pass-Through Entity Grant Number	Catalog of Federal Domestic Assistance Number	Program Expenditures
U.S. Department of Housing and Urban Development			
Community Development Block Grant	B 07-MC-06-0055	14.218	
Loan Expenditures			\$480,191
Program Expenditures			183,873
Subgrants			246,068
Total Community Development Block Grants			<u>910,132</u>
U.S. Department of Justice			
(Passed through Santa Clara County)			
Edward Byrne Memorial Justice Assistance Grant	2007 DJ BX 0561	16.738	<u>15,462</u>
U.S. Department of Justice			
Bulletproof Vest Grant 2004 Award	2004 BU BX 04024143	16.607	5,782
Bulletproof Vest Grant 2008 Award	2008 BU BX 08045028	16.607	1,814
			<u>7,596</u>
U.S. Department of Transportation			
State and Community Highway Safety			
(Passed through County of Santa Clara Public Health Department)			
Avoid the 13th under the Influence Campaign	AL 0456	20.600	1,058
(Passed through U.C. Berkeley Traffic Safety Center)			
Next Generation-Click It or Ticket 2008-2009		20.600	11,265
Sobriety Checkpoint Program for Local Law Enforcement Agencies	AMO 5145	20.600	8,127
(Passed through County of Santa Clara Public Health Department)			
Speed and Red Light for Local Law Enforcement Agencies	AL 0456	20.600	2,081
			<u>22,531</u>
U.S. Department of Transportation			
(Passed through State of California Department of Transportation)			
Highway Planning and Construction			
Safe Routes to School Grant	SRTSL-5314(005)	20.205	11,636
VTA/LTC - N. Main Street (Weller Lane to Carlos Street)	RPSTPLE-5314(004)	20.205	1,139,894
			<u>1,151,530</u>
U.S. Department of Homeland Security			
Assistance to Firefighters Grant	EMW 2007 FO 11056	97.044	<u>179,978</u>
U.S. Department of Homeland Security			
(Passed through Santa Clara County)			
Fiscal Year 2008 Emergency Management Performance Grant (EMPG)	EMW-2008-FO-11056	97.042	<u>8,843</u>
U.S. Department of Homeland Security			
(Passed through State of California Office of Emergency Services)			
SUASI 2007 Grant	#0008	97.008	<u>4,776</u>
U.S. Department of Agriculture			
(Passed through County of Santa Clara Social Services Agency)			
Department of Aging and Adult Services)			
Nutrition Program for the Elderly	AP-0809-10	10.570	<u>82,049</u>
Total Federal Assistance			<u>\$2,382,897</u>

See Notes to Schedule of Expenditures of Federal Awards

CITY OF MILPITAS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2009

NOTE 1-REPORTING ENTITY

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the City of Milpitas, California and its component units as disclosed in the notes to the Basic Financial Statements.

NOTE 2-BASIS OF ACCOUNTING

Basis of accounting refers to *when* revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. All proprietary funds are accounted for using the accrual basis of accounting. Expenditures of Federal Awards reported on the Schedule are recognized when incurred.

NOTE 3-DIRECT AND INDIRECT (PASS-THROUGH) FEDERAL AWARDS

Federal awards may be granted directly to the City by a federal granting agency or may be granted to other government agencies which pass-through federal awards to the City. The Schedule includes both of these types of Federal award programs when they occur.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable Mayor and City Council
of the City of Milpitas, California

We have audited the financial statements of the City of Milpitas as of and for the year ended June 30, 2009, and have issued our report thereon dated September 18, 2009. We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards*.

We have also issued a separate Memorandum on Internal Control dated September 18, 2009 which is an integral part of our audits and should be read in conjunction with this report.

This report is intended solely for the information and use of City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mane & Associates

September 18, 2009

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and City Council
of the City of Milpitas, California

Compliance

We have audited the compliance of the City of Milpitas with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The City's major federal programs are identified in Section I - Summary of Auditor's Results included in the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal controls over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City's internal control over compliance.

A *control deficiency* in a City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the City as of and for the year ended June 30, 2009, and have issued our report thereon dated September 18, 2009. Our audit was performed for the purpose of forming opinions on the financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mage & Associates

September 18, 2009